

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

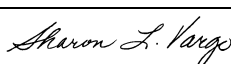
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **City of Watervliet, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2006**

# City of Watervliet, Michigan

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## Independent Auditor's Report

To the City Commission  
City of Watervliet, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watervliet, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Watervliet, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Watervliet, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

September 25, 2006



A worldwide association of independent accounting firms

# **City of Watervliet, Michigan**

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## **Management's Discussion and Analysis**

Within this section of the City of Watervliet's annual financial report, the city management presents a narrative and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. This discussion focuses on the City's primary government (limited discussion is provided for the City's business-type activities).

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- Total net assets related to the City's governmental activities increased by approximately \$90,000. Total net assets related to the City's business-type activities increased by approximately \$180,000, for a total City-wide increase of \$270,000.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

# City of Watervliet, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current assets	\$ 924,009	\$ 920,057	\$ 389,501	\$ 244,027	\$ 1,313,510	\$ 1,164,084
Noncurrent assets	963,717	901,472	1,417,275	1,405,255	2,380,992	2,306,727
Total assets	1,887,726	1,821,529	1,806,776	1,649,282	3,694,502	3,470,811
<b>Liabilities</b>						
Current liabilities	66,054	74,962	21,059	21,268	87,113	96,230
Long-term liabilities	131,979	145,424	125,000	150,000	256,979	295,424
Total liabilities	198,033	220,386	146,059	171,268	344,092	391,654
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	724,013	648,323	1,059,177	1,014,743	1,783,190	1,663,066
Restricted	299,716	239,267	-	-	299,716	239,267
Unrestricted	665,964	713,553	601,540	463,271	1,267,504	1,176,824
Total net assets	<u>\$ 1,689,693</u>	<u>\$ 1,601,143</u>	<u>\$ 1,660,717</u>	<u>\$ 1,478,014</u>	<u>\$ 3,350,410</u>	<u>\$ 3,079,157</u>

The City's combined net assets increased 8.8 percent from a year ago - increasing from \$3,079,157 to \$3,350,410. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities net assets increased by approximately 5.5 percent, while the business activities net assets increased by approximately 12.4 percent.

Unrestricted Net Assets - the part of net assets that can be used to finance day-to-day operations - decreased by \$47,589 for the governmental activities. This represents a decrease of approximately 6.7 percent. The current level of unrestricted net assets for our governmental activities stands at \$665,964, or about 63 percent of expenditures. This is within the targeted range set by the City during its last budget process.

# City of Watervliet, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 36,454	\$ 70,525	\$ 490,606	\$ 494,102	\$ 527,060	\$ 564,627
Operating grants and contributions	149,343	159,443	51,893	-	201,236	159,443
Capital grants and contributions	46,313	-	-	-	46,313	-
General revenue:						
Property taxes	534,462	514,363	-	-	534,462	514,363
State-shared revenue	241,888	277,029	-	-	241,888	277,029
Unrestricted investment earnings	26,795	9,042	10,040	2,833	36,835	11,875
Transfers and other revenue	106,850	88,385	-	-	106,850	88,385
Total revenue	1,142,105	1,118,787	552,539	496,935	1,694,644	1,615,722
<b>Program Expenses</b>						
General government	270,428	316,234	-	-	270,428	316,234
Public safety	352,446	301,810	-	-	352,446	301,810
Public works	376,029	320,395	-	-	376,029	320,395
Parks and recreation	53,671	87,850	-	-	53,671	87,850
Interest on long-term debt	981	1,304.0	-	-	981	1,304
Water and sewer	-	-	369,836	492,027	369,836	492,027
Total program expenses	1,053,555	1,027,593	369,836	492,027	1,423,391	1,519,620
<b>Change in Net Assets</b>	<b>\$ 88,550</b>	<b>\$ 91,194</b>	<b>\$ 182,703</b>	<b>\$ 4,908</b>	<b>\$ 271,253</b>	<b>\$ 96,102</b>

### Governmental Activities

The City's total governmental revenues remained consistent with the prior year, despite in state-shared revenue.

Expenses increased by about 2.5 percent during the year. Increases were seen in both police and the public works departments. To offset these increased costs, the City closely monitored its spending in all other areas, including seasonal hiring and overtime spending. In addition to this, the City opted to continue the use of part-time labor to assist with service delivery in both the police and public works departments. Through the use of part-time labor, the City is able to control benefit costs related to full-time employment, while maintaining the quantity/quality of our services.

# **City of Watervliet, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Funds.

We provide water services through a locally owned and operated water system, which consists of three wells, a network of underground piping, and a water tower. Currently, the City is working with USDA Rural Development for the redevelopment of this water system. This project, which is estimated to cost \$2.5 million, will refinish and update the tower, install a new well, and add roughly four miles of new water pipe. Construction on this project is planned for the spring of 2007.

We provide sewage treatment through a jointly owned and operated sewage treatment plant. In January 1971, the cities and townships of Coloma and Watervliet agreed to jointly acquire, own, and operate a sewage treatment and disposal facility. As part of the agreement, the board was established to control, manage, and operate the joint sewage facility. The board consists of two appointed representatives from each of the four municipalities. Ownership of the infrastructure passed to the municipalities in May 1993 when the related construction debt was retired.

### **The City's Funds**

Our analysis of the City's major funds begins on pages 13 and 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as Act 51 street money and donations/grants for the skate park project. The City's major funds for 2006 include the General Fund, the Major Streets Fund, the Local Streets Fund, Capital Projects Fund, Tri-City Skate Park Fund, and the City's two Enterprise Funds - the Water and Sewer Funds.

The General Fund pays for most of the City's governmental services. The most significant are police and public services, which incurred expenses of approximately \$602,000 in 2006. These two services are mostly supported by the City's operating tax millage and state-shared revenue.



# **City of Watervliet, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **General Fund Budgetary Highlights**

The City amended the budget to take into account events during the fiscal year to ensure a balanced budget. While budgeted revenue did not increase, the City reallocated budgeted expenditures among various City departments. The most significant changes were to increase the parks/recreation department budgets in an effort to supply funding to complete grant and donation funded projects.

The budget issue that resulted in an increased budget figure was found in the investment in parks/recreation spending. This increase in budgeted spending was a result of the City's successful request for grant funding for the construction of a skate park located near the Paw Paw River at Hays Park. This project required the use of a contractor to construct the concrete pad, materials for the construction of the ramp structures, and various volunteers that met to construct those ramps. Of note, the bulk of this project's costs was offset by private donations supplied by the Tri-City Skate Park Association and the grant funds that were received from the Michigan Department of Natural Resources (please note, the City will close out this project in the spring of 2007, and receive final payment from the Michigan Department of Natural Resources).

### **Capital Asset and Debt Administration**

At the end of the fiscal year, the City had total bonded outstanding debt of \$125,000. The debt is backed by the full faith and credit of the City (general obligation bonds) with the debt service fully funded by the Sewer Fund. In addition to this debt, the City has a promissory note, approved as an Act 99 purchase, for the acquisition of equipment. At the end of the fiscal year, the City had outstanding debt of \$21,603 on this note.

At the end of 2006, the City had approximately \$3.4 million of gross costs (\$2 million net of depreciation) invested in a broad range of capital assets, including buildings, police equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City. During 2006, the City invested an additional \$135,000 in governmental capital assets. These additions were paid for by General Fund surplus and did not require any additional debt financing. Additionally, the City was able to reduce total debt outstanding by the scheduled \$38,000 during the fiscal year.

# City of Watervliet, Michigan

## Management's Discussion and Analysis (Continued)

### Economic Factors and Next Year's Budgets and Rates

The City of Watervliet is facing serious challenges. Rising costs of insurance and constant reductions in state-shared revenue are just two of these challenges. For the current fiscal year (2006-2007), the City is taking steps to address these issues while maintaining quality service delivery. The City is focused on continuing to provide the services that residents have come to depend on (e.g., 24-hour police coverage, snow plowing, water/sewer services, up-to-date park system, a thriving local community, etc.) while recognizing the local budget constraints. As part of the planning process, the City has focused on several key items that greatly impact the local budget. Some of these highlights are addressed below:

- The State of Michigan's economy has continued to struggle and has forced the continued reductions in state-shared revenue. As a result of this, the City of Watervliet's portion of state-shared revenue has been reduced consistently and dramatically during the past years. A breakdown of these reductions, based on the State of Michigan's fiscal year ending September 30, is provided below:
  - 2002: \$289,710
  - 2003: \$268,898
  - 2004: \$250,247
  - 2005: \$245,018
  - 2006: \$243,455 (Projected)
- The costs of providing hospitalization insurance coverage to the City's full-time staff has been, and will continue to be, a major portion of the City's General Fund spending. The rising costs of health care are a nationwide issue, affecting both private and public organizations. In an effort to secure quality coverage, while minimizing the costs to the City, Watervliet has been working with the Michigan Municipal League to select our health care provider. Through the assistance of the League, the City has worked with Municipal Benefit Service for our Blue Cross/Blue Shield health care. For the current year, the City has found that the following issue is related to the rising health insurance costs:
  - Watervliet projects a 20 percent increase in the costs of providing health benefits to the City's staff over the coming fiscal year. This will raise the cost of health care to an estimated \$146,000.

In 2004, the voters of the City of Watervliet approved special millage proposals. A summary of these proposals is provided below:

- During the past fiscal year, the City saw local voters place high value on three City services (police, fire, and library). With the passage of these millages, the City's General Fund is in a healthier position to provide the various local services that Watervliet residents have come to expect.

# City of Watervliet, Michigan

## Management's Discussion and Analysis (Continued)

- Fire department funding is now based completely on the revenues collected as part of their three-year millage agreement. In addition to this, the library funding is now based completely on the revenues collected as part of their three-year millage agreement. Please note, when considering this current year's budget, the line items for both fire and library services have been eliminated; this is due to their ability to collect the approved millage amounts.
- The taxable value for the City of Watervliet is a primary concern for elected and appointed officials. With the growth of the community's taxable value, the City will further develop its resources and aid in an effort to improve services. Throughout the previous year, and continuing into the current year, the City is working on several projects that should aid in the further development of the City's taxable value, while aiding in the creation of jobs and providing resources to members of the community. Two examples of this growth are found in the City's recent sale of an estimated 22 acres of property located along the Paw Paw River. This property, and the adjacent acreage, will be used to develop approved 73 single-family homes. This development will represent an estimated \$10 million addition to the community's taxable value. Also, the City is working with a local developer on the mixed use development of roughly 154 acres located along Interstate 94. This project is slated to bring new homes, a hotel, and various commercial developments to the area.

### **Management's Comments**

Further reductions in the State of Michigan's shared revenue, as a result of the declines experienced in the state of Michigan's economy, were an anticipated reality in this fiscal year, and are expected to continue for the coming year. As a result of these reductions, the City of Watervliet has been forced to create a leaner budget that reflects the fiscal reality. This budgeting has forced the reduction in overtime spending for various governmental services along with an increased use of part-time labor to assist with service delivery.

In addition to restricting traditional spending, the City of Watervliet has aggressively sought grant income from various state and federal programs for special projects, which include the following:

- The Great Lakes Basin grant of \$32,000 has created an urban sediment management demonstration center which will incorporate porous pavement and rain gardens to control sediment release in the river.
- The Michigan Department of Natural Resources grant has provided \$42,300 for the second phase of improvements to Hays Park, which includes the recently completed skateboard park constructed near the Paw Paw River, the proposed fishing pier, and a canoe launch. The City has also received a commitment from the Tri-City Skate Park Association to contribute \$30,000 toward the skateboard park.
- A Michigan Department of Environmental Quality grant of \$48,000 were received from the Clean Michigan Initiative, Abandoned Well Management program. This grant provided funding for the identification, location, and plugging of abandoned wells, and for the administration of abandoned well management project activities. The City has also received a payment, in the amount of \$16,000, from the Berrien County Brownfield Authority to assist with the local matching requirements for this program.

# City of Watervliet, Michigan

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## Management's Discussion and Analysis (Continued)

- In addition to grant funding, the City of Watervliet's governmental activities will realize benefits from City voter approvals of police, fire, and library millages. The fire and library activities had previously received financial support from the General Fund. During the reported fiscal year, these two activities were supported by their own tax levy.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

The City of Watervliet encourages questions and/or comments from concerned citizens. For more information on the projects and programs in which the City is currently involved, please visit the City's website at: [www.watervliet.org](http://www.watervliet.org).

# City of Watervliet, Michigan

## Statement of Net Assets June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Assets</b>				
Cash and investments (Note 3)	\$ 712,141	\$ 431,887	\$ 1,144,028	\$ 23,348
Customer receivables	-	113,601	113,601	32,688
Internal balances	155,987	(155,987)	-	-
Due from other governmental units	55,881	-	55,881	-
Capital assets - Net (Note 4):				
Assets not subject to depreciation	221,342	24,845	246,187	-
Assets subject to depreciation	616,832	1,159,332	1,776,164	-
Investment in redevelopment property	92,558	-	92,558	-
Investment in joint ventures	32,985	233,098	266,083	-
Total assets	1,887,726	1,806,776	3,694,502	56,036
<b>Liabilities</b>				
Accounts payable	56,616	18,559	75,175	-
Accrued and other liabilities	9,438	2,500	11,938	-
Noncurrent liabilities - Due within one year (Note 6):				
Accrued compensated absences	17,818	-	17,818	-
Long-term debt	11,738	30,000	41,738	-
Due in more than one year - Long-term debt	102,423	95,000	197,423	-
Total liabilities	198,033	146,059	344,092	-
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	724,013	1,059,177	1,783,190	-
Restricted for:				
Streets and highways	315,178	-	315,178	-
Grant-related projects	(15,462)	-	(15,462)	-
Unrestricted	665,964	601,540	1,267,504	56,036
Total net assets	<u>\$ 1,689,693</u>	<u>\$ 1,660,717</u>	<u>\$ 3,350,410</u>	<u>\$ 56,036</u>

# City of Watervliet, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 270,428	\$ 28,970	\$ -	\$ -
Public safety	352,446	7,484	-	21,500
Public works	376,029	-	149,343	-
Parks and recreation	53,671	-	-	24,813
Interest on long-term debt	981	-	-	-
Total governmental activities	1,053,555	36,454	149,343	46,313
Business-type activities:				
Water	129,508	205,270	51,893	-
Sewer	240,328	285,336	-	-
Total business-type activities	369,836	490,606	51,893	-
Total primary government	<u>\$ 1,423,391</u>	<u>\$ 527,060</u>	<u>\$ 201,236</u>	<u>\$ 46,313</u>
Component unit - Downtown Development Authority	<u>\$ 42,524</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest income				
Proceeds from sale of land				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2006**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
\$ (241,458)	\$ -	\$ (241,458)	\$ -
(323,462)	-	(323,462)	-
(226,686)	-	(226,686)	-
(28,858)	-	(28,858)	-
(981)	-	(981)	-
(821,445)	-	(821,445)	-
-	127,655	127,655	-
-	45,008	45,008	-
-	172,663	172,663	-
(821,445)	172,663	(648,782)	-
-	-	-	(42,524)
534,462	-	534,462	33,137
241,888	-	241,888	-
26,795	10,040	36,835	599
24,415	-	24,415	-
82,435	-	82,435	-
909,995	10,040	920,035	33,736
88,550	182,703	271,253	(8,788)
1,601,143	1,478,014	3,079,157	64,824
<b>\$ 1,689,693</b>	<b>\$ 1,660,717</b>	<b>\$ 3,350,410</b>	<b>\$ 56,036</b>

# City of Watervliet, Michigan

	General	Major Streets	Local Streets	Capital Projects
<b>Assets</b>				
Cash	\$ 16,437	\$ 152,794	\$ 26,304	\$ 103,381
Investments	211,210	88,761	-	103,789
Due from State	29,545	20,688	5,648	-
Due from other funds	299,756	12,631	11,671	-
Total assets	<u>\$ 556,948</u>	<u>\$ 274,874</u>	<u>\$ 43,623</u>	<u>\$ 207,170</u>
<b>Liabilities and Fund Balances (Deficit)</b>				
<b>Liabilities</b>				
Accounts payable	\$ 46,738	\$ 2,410	\$ 909	\$ -
Accrued and other liabilities	9,438	-	-	-
Due to other funds	24,302	-	-	125,401
Total liabilities	80,478	2,410	909	125,401
<b>Fund Balance (Deficit) - Unreserved and undesignated</b>	<u>476,470</u>	<u>272,464</u>	<u>42,714</u>	<u>81,769</u>
Total liabilities and fund balance (deficit)	<u>\$ 556,948</u>	<u>\$ 274,874</u>	<u>\$ 43,623</u>	<u>\$ 207,170</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

Investments in joint ventures and redevelopment property are not reported in the funds

Long-term liabilities are not due and payable in the current period and are not reported in the funds

Net assets of governmental activities



**Governmental Funds  
Balance Sheet  
June 30, 2006**

Tri-City Skate Park	Total Governmental Funds
\$ 9,465	\$ 308,381
-	403,760
-	55,881
-	324,058
<u>\$ 9,465</u>	<u>\$ 1,092,080</u>

\$ 6,559	\$ 56,616
-	9,438
<u>18,368</u>	<u>168,071</u>
24,927	234,125
<u>(15,462)</u>	<u>857,955</u>

**\$ 9,465**

838,174  
125,543  
(131,979)  
  
**\$ 1,689,693**

# City of Watervliet, Michigan

	General	Major Streets	Local Streets	Capital Projects
<b>Revenue</b>				
Property taxes	\$ 534,462	\$ -	\$ -	\$ -
State sources	241,888	112,160	37,183	-
Licenses and permits	7,194	-	-	-
Fines and forfeitures	290	-	-	-
Interest income	15,025	6,396	95	4,703
Rental income	16,339	-	-	-
Other	92,573	8,508	-	-
Total revenue	907,771	127,064	37,278	4,703
<b>Expenditures</b>				
General government	248,935	-	-	-
Public safety	322,537	-	-	-
Public works	279,860	54,131	40,659	-
Parks and recreation	40,451	-	-	-
Payroll taxes and fringe benefits	43,280	-	-	-
Total expenditures	935,063	54,131	40,659	-
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	(27,292)	72,933	(3,381)	4,703
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	25,000	-
Transfers out	(25,000)	-	-	-
Total other financing sources (uses)	(25,000)	-	25,000	-
<b>Net Change in Fund Balance</b>	(52,292)	72,933	21,619	4,703
<b>Fund Balance - Beginning of year</b>	528,762	199,531	21,095	77,066
<b>Fund Balance (Deficit) - End of year</b>	<u>\$ 476,470</u>	<u>\$ 272,464</u>	<u>\$ 42,714</u>	<u>\$ 81,769</u>

**Governmental Funds**  
**Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances**  
**Year Ended June 30, 2006**

	<u>Non-Major Fund</u>	
Tri City Skate Park	Housing Improvement	Total Governmental Funds
\$ -	\$ -	\$ 534,462
24,813	-	416,044
-	-	7,194
-	-	290
570	6	26,795
-	-	16,339
18,400	-	119,481
<u>43,783</u>	<u>6</u>	<u>1,120,605</u>
-	-	248,935
-	-	322,537
-	3,762	378,412
74,130	-	114,581
-	-	43,280
<u>74,130</u>	<u>3,762</u>	<u>1,107,745</u>
(30,347)	(3,756)	12,860
-	-	25,000
<u>-</u>	<u>-</u>	<u>(25,000)</u>
-	-	-
(30,347)	(3,756)	12,860
14,885	3,756	845,095
<u>\$ (15,462)</u>	<u>\$ -</u>	<u>\$ 857,955</u>

# City of Watervliet, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>12,860</b>
---	-----------	---------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	134,423
Depreciation expense	(72,178)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

13,445
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<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>88,550</u></b>
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# City of Watervliet, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2006

	Sewer Fund	Water Fund	Total Enterprise Funds
<b>Assets</b>			
Current assets:			
Cash	\$ 237,615	\$ 194,272	\$ 431,887
Customer receivables - Net	65,864	47,737	113,601
Total current assets	303,479	242,009	545,488
Noncurrent assets:			
Capital assets	652,297	531,880	1,184,177
Investment in joint venture	233,098	-	233,098
Total noncurrent assets	885,395	531,880	1,417,275
Total assets	1,188,874	773,889	1,962,763
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	11,793	6,766	18,559
Accrued and other liabilities	2,500	-	2,500
Due to other funds	116,109	39,878	155,987
Current portion of long-term debt	30,000	-	30,000
Total current liabilities	160,402	46,644	207,046
Noncurrent liabilities - Long-term debt -			
Net of current portion	95,000	-	95,000
Total liabilities	255,402	46,644	302,046
<b>Net Assets</b>			
Investment in capital assets - Net of related debt	527,297	531,880	1,059,177
Unrestricted	406,175	195,365	601,540
Total net assets	<u>\$ 933,472</u>	<u>\$ 727,245</u>	<u>\$ 1,660,717</u>

# City of Watervliet, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Sewer Fund	Water Fund	Total Enterprise Funds
<b>Operating Revenue</b>			
Sewage disposal charges	\$ 284,299	\$ -	\$ 284,299
Sale of water	-	196,801	196,801
Other	1,037	60,362	61,399
Total operating revenue	285,336	257,163	542,499
<b>Operating Expenses</b>			
Cost of sewage treatment	186,284	-	186,284
Cost of water produced	-	104,160	104,160
Depreciation	38,284	25,348	63,632
Total operating expenses	224,568	129,508	354,076
<b>Operating Income</b>	60,768	127,655	188,423
<b>Nonoperating Revenue (Expense)</b>			
Interest income	5,081	4,959	10,040
Interest expense	(8,346)	-	(8,346)
Decrease in investment in joint venture	(7,414)	-	(7,414)
Total nonoperating revenue (expense)	(10,679)	4,959	(5,720)
<b>Change in Net Assets</b>	50,089	132,614	182,703
<b>Net Assets - Beginning of year</b>	883,383	594,631	1,478,014
<b>Net Assets - End of year</b>	<u>\$ 933,472</u>	<u>\$ 727,245</u>	<u>\$ 1,660,717</u>

# City of Watervliet, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Sewer Fund	Water Fund	Total Enterprise Funds
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 312,881	\$ 258,617	\$ 571,498
Payments to suppliers	(142,374)	(55,516)	(197,890)
Payments to employees	(42,881)	(49,882)	(92,763)
Net cash provided by operating activities	127,626	153,219	280,845
<b>Cash Flows from Capital and Related Financing Activities</b>			
Purchase of capital assets	-	(83,066)	(83,066)
Principal and interest paid on capital debt	(33,346)	-	(33,346)
Net cash used in capital and related financing activities	(33,346)	(83,066)	(116,412)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	5,081	4,959	10,040
<b>Net Increase in Cash</b>	99,361	75,112	174,473
<b>Cash</b> - Beginning of year	138,254	119,160	257,414
<b>Cash</b> - End of year	<u>\$ 237,615</u>	<u>\$ 194,272</u>	<u>\$ 431,887</u>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 60,768	\$ 127,655	\$ 188,423
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	38,284	25,348	63,632
Changes in assets and liabilities:			
Receivables	27,545	1,454	28,999
Accounts payable	2,770	(1,238)	1,532
Accrued and other liabilities	(1,741)	-	(1,741)
Net cash provided by operating activities	<u>\$ 127,626</u>	<u>\$ 153,219</u>	<u>\$ 280,845</u>

**Noncash Investing, Capital, and Financing Activities** - During the year, the City had a noncash investing activity of \$7,414 related to the change in investments in joint ventures. There were no noncash capital and financing activities.

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Watervliet, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Watervliet, Michigan:

#### **Reporting Entity**

The City of Watervliet, Michigan is governed by an elected seven-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Discretely Presented Component Unit** - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to encourage growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the Authority's budget is subject to approval by the City Commission.

**Jointly Governed Organizations** - The City, along with Watervliet Township, Coloma Charter Township, and the City of Coloma, is a participant in a joint venture to provide sanitary sewage treatment and collection facilities for the residents of these communities. The Paw Paw Lake Regional Joint Sewage Disposal Board was created for this purpose. The City's equity interest in the amount of \$233,098 is recorded in business-type activities on the government-wide financial statements. Complete financial statements for the board can be obtained from the City of Watervliet's mayor's office.

The City, along with Watervliet Township, is also a member of the Watervliet Joint Fire Board. The Fire Board was created to provide fire protection services to residents of these two municipalities. The City has an equity interest in the amount of \$6,900, recorded in governmental activities in the government-wide financial statements. Complete financial statements for the Fire Board can be obtained from the City's mayor's office.



### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The City is a participant with Watervliet Township in a joint venture to provide for the administration and operations of the cemetery. The Watervliet City/Township Cemetery Board was formed for this purpose. The City contributed \$5,000 to the cemetery and has an equity interest in the amount of \$26,085 recorded in governmental activities in the government-wide financial statements. Complete financial statements for the cemetery can be obtained from the City's mayor's office.

The City is also a participant with Watervliet Township in a joint venture to operate a local airport. The Watervliet Joint Airport Board was created for this purpose. The City's equity interest is not significant and is not recorded in the City's financial statements.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Tri-City Skate Park Fund** - The Tri-City Skate Park Fund accounts for the resources of grant monies and private donations that are restricted for construction of a skate park.

**Capital Projects Fund** - The Capital Projects Fund accounts for funds that have been set aside to fund future capital expenditures for the City's governmental activities.

The City reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** - The Sewer Fund accounts for the activities of the sewage collection system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$27.4 million (a portion of which is captured by the DDA), on which taxes levied consisted of 17.4592 mills for operating purposes and 2.9988 mills for police protection. This resulted in \$455,000 for operating and \$78,000 for police protection. These amounts are recognized in the General Fund's financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits** - Cash includes cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	25 years
Utility systems	10 to 40 years
Buildings	25 to 40 years
Equipment	4 to 10 years
Improvements	15 years
Vehicles	5 years

**Investment in Redevelopment Property** - The City, Watervliet Township, and Berrien County entered into an agreement to help demolish and redevelop certain property within the City and the Township. The agreement allows the County to work toward redevelopment, incurring costs on behalf of the City, which is due to the County upon completion of the project and/or expiration of the Renaissance Zone designation in 2012. The City's obligation is reduced by the proceeds of property sales. If the County does not recover its costs by the sale of properties before 2012, the City will be responsible for the balance. The City has recorded an investment and obligation in the amount of \$92,558 at June 30, 2006.

**Compensated Absences (Vacation Leave)** - It is the City's policy to permit employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

### Note 1 - Summary of Significant Accounting Policies (Continued)

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since July 1, 2005 is as follows:

Shortfall at July 1, 2005		\$	(6,485)
Current year building permit revenue	\$	3,928	
Related expenses - Direct costs		<u>12,400</u>	
Current year shortfall			<u>(8,472)</u>
Accumulated shortfall at June 30, 2006		\$	<u>(14,957)</u>

### **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

**Noncompliance with Legal or Contractual Provisions** - The City does not currently have an ACH policy in compliance with legal provisions, but is in the process of adopting a qualified policy.

**Deficit Fund Balances** - The Tri-City Skate Park Fund had an unrestricted fund balance deficit. The City anticipates receiving additional grant income in fiscal 2007 that will correct this fund deficit.

### **Note 3 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the Commission in accordance with Public Act 196 of 1997 has authorized investments in all vehicles listed above, except for commercial paper.

The City of Watervliet, Michigan's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to risk, which is examined in more detail below:

#### **Custodial Credit Risk of Bank Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$989,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# City of Watervliet, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions	Balance June 30, 2006
<b>Governmental Activities</b>			
Capital assets not being depreciated - Land	\$ 221,342	\$ -	\$ 221,342
Capital assets being depreciated:			
Roads and sidewalks	153,546	-	153,546
Buildings	163,828	-	163,828
Vehicles	286,480	26,335	312,815
Land improvements	209,642	5,778	215,420
Equipment	487,394	102,310	589,704
Subtotal	1,300,890	134,423	1,435,313
Accumulated depreciation:			
Roads and sidewalks	6,997	6,142	13,139
Buildings	124,434	1,746	126,180
Vehicles	249,287	20,353	269,640
Improvements	51,259	14,041	65,300
Equipment	314,326	29,896	344,222
Subtotal	746,303	72,178	818,481
Net capital assets being depreciated	554,587	62,245	616,832
Net capital assets	\$ 775,929	\$ 62,245	\$ 838,174



# City of Watervliet, Michigan

## Notes to Financial Statements June 30, 2006

### Note 4 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance July 1, 2005	Additions	Balance June 30, 2006
Capital assets not being depreciated:			
Land	\$ 13,500	\$ -	\$ 13,500
Construction in process	-	11,345	11,345
	13,500	11,345	24,845
Capital assets being depreciated:			
Utility systems	2,348,011	71,721	2,419,732
Buildings and improvements	75,600	-	75,600
Equipment	54,183	-	54,183
Subtotal	2,477,794	71,721	2,549,515
Accumulated depreciation:			
Utility systems	1,220,551	61,334	1,281,885
Buildings and improvements	54,335	1,291	55,626
Equipment	51,665	1,007	52,672
Subtotal	1,326,551	63,632	1,390,183
Net capital assets being depreciated	1,151,243	8,089	1,159,332
Net capital assets	\$ 1,164,743	\$ 19,434	\$ 1,184,177

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 10,673
Public safety	13,096
Public works	33,173
Recreation and culture	15,236
Total governmental activities	\$ 72,178
Business-type activities:	
Water	\$ 25,348
Sewer	38,284
Total business-type activities	\$ 63,632

# City of Watervliet, Michigan

## Notes to Financial Statements June 30, 2006

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 39,878
General Fund	Sewer Fund	116,109
General Fund	Capital Improvement Fund	125,401
General Fund	Tri-City Skate Park Fund	18,368
Major Streets Fund	General Fund	12,631
Local Streets Fund	General Fund	11,671
Total		<u>\$ 324,058</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

#### Detail of interfund transfers:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Local Streets Fund	<u>\$ 25,000</u>

The transfers from the General Fund to the Local Streets Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

# City of Watervliet, Michigan

## Notes to Financial Statements June 30, 2006

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Installment purchase agreements:					
Amount of issue: \$50,000					
Maturing through 2008	3.14%	\$ 35,048	\$ (13,445)	\$ 21,603	\$ 11,738
County Contractual Obligation:					
Amount of issue: \$100,000					
Maturing in 2012	-	92,558	-	92,558	-
Other liabilities - Compensated absences	-	17,818	-	17,818	17,818
Total governmental activities		<u>\$ 145,424</u>	<u>\$ (13,445)</u>	<u>\$ 131,979</u>	<u>\$ 29,556</u>
<b>Business-type Activities</b>					
General obligation bonds:					
Amount of issue: \$360,000					
Maturing through 2010	8.50%	<u>\$ 150,000</u>	<u>\$ (25,000)</u>	<u>\$ 125,000</u>	<u>\$ 30,000</u>

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 11,738	\$ 469	\$ 12,207	\$ 30,000	\$ 8,023	\$ 38,023
2008	9,865	130	9,995	30,000	5,841	35,841
2009	-	-	-	30,000	4,919	34,919
2010	-	-	-	35,000	2,546	37,546
2011	92,558	-	92,558	-	-	-
Total	<u>\$ 114,161</u>	<u>\$ 599</u>	<u>\$ 114,760</u>	<u>\$ 125,000</u>	<u>\$ 21,329</u>	<u>\$ 146,329</u>

### **Note 7 - Risk Management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee life and disability, and participates in the Michigan Municipal League risk pool for property, general liability, medical, and workers' compensation claims.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

## **Required Supplemental Information**

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# City of Watervliet, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 540,125	\$ 540,125	\$ 534,462	\$ (5,663)
Federal sources	321,300	321,300	-	(321,300)
State sources	247,798	247,798	241,888	(5,910)
Licenses and permits	12,325	12,325	7,194	(5,131)
Fines and forfeitures	4,600	4,600	290	(4,310)
Interest income	5,000	5,000	15,025	10,025
Rental income	66,920	66,920	16,339	(50,581)
Other	58,533	58,533	92,573	34,040
Total revenue	1,256,601	1,256,601	907,771	(348,830)
<b>Expenditures</b>				
General government:				
City commission	11,250	10,250	8,474	1,776
City manager	44,592	44,592	47,901	(3,309)
Mayor	3,600	3,100	1,542	1,558
Elections	1,570	1,570	1,818	(248)
Accounting fees	17,750	17,750	18,185	(435)
Assessor	7,730	7,730	18,752	(11,022)
Legal	12,500	12,500	11,853	647
Clerk's office	62,037	61,037	70,562	(9,525)
Treasurer	9,850	12,850	12,866	(16)
Board of review	510	510	565	(55)
Hall and grounds	13,525	14,525	12,935	1,590
Community promotion	8,670	8,670	9,149	(479)
Planning and zoning	225	8,725	8,418	307
Other	28,370	17,620	25,813	(8,193)
Total general government	222,179	221,429	248,833	(27,404)

# City of Watervliet, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Expenditures (Continued)</b>				
Public safety:				
Police	\$ 260,239	\$ 262,289	\$ 287,079	\$ (24,790)
Ambulance	12,772	12,772	13,836	(1,064)
Inspection	12,295	9,795	12,400	(2,605)
Crossing guard	8,225	8,225	9,222	(997)
Total public safety	293,531	293,081	322,537	(29,456)
Parks and recreation	344,125	362,875	40,451	322,424
Public works	273,700	283,150	279,860	3,290
Payroll taxes and fringe benefits	76,720	50,220	43,382	6,838
Transfers to other funds	27,000	26,500	25,000	1,500
Total expenditures	1,237,255	1,237,255	960,063	277,192
<b>Net Change in Fund Balance</b>	19,346	19,346	(52,292)	(71,638)
<b>Fund Balance - Beginning of year</b>	528,762	528,762	528,762	-
<b>Fund Balance - End of year</b>	<u>\$ 548,108</u>	<u>\$ 548,108</u>	<u>\$ 476,470</u>	<u>\$ (71,638)</u>

# City of Watervliet, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State sources	\$ 89,522	\$ 89,522	\$ 112,160	\$ 22,638
Interest income	1,750	1,750	6,396	4,646
Other	4,500	4,500	8,508	4,008
Total revenue	95,772	95,772	127,064	31,292
<b>Expenditures</b>				
Street construction	43,500	27,500	8,150	19,350
Routine maintenance	19,850	25,150	16,968	8,182
Trees and shrubs	4,050	3,050	1,574	1,476
Traffic services	1,250	1,250	1,073	177
Winter maintenance	21,755	26,455	16,812	9,643
Administrative	4,425	11,425	9,554	1,871
Total expenditures	94,830	94,830	54,131	40,699
<b>Net Change in Fund Balance</b>	942	942	72,933	71,991
<b>Fund Balance - Beginning of year</b>	199,531	199,531	199,531	-
<b>Fund Balance - End of year</b>	<u>\$ 200,473</u>	<u>\$ 200,473</u>	<u>\$ 272,464</u>	<u>\$ 71,991</u>



# City of Watervliet, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State sources	\$ 33,200	\$ 33,200	\$ 37,183	\$ 3,983
Interest income	40	40	95	55
Total revenue	33,240	33,240	37,278	4,038
<b>Expenditures</b>				
Street construction	26,000	23,500	1,139	22,361
Routine maintenance	16,200	13,080	13,953	(873)
Traffic services	650	650	619	31
Winter maintenance	11,425	14,745	15,519	(774)
Administrative	5,100	7,400	9,429	(2,029)
Total expenditures	59,375	59,375	40,659	18,716
<b>Excess of Expenditures Over Revenue</b>	(26,135)	(26,135)	(3,381)	22,754
<b>Other Financing Sources</b> - Transfers from other funds	27,000	27,000	25,000	(2,000)
<b>Net Change in Fund Balance</b>	865	865	21,619	20,754
<b>Fund Balance</b> - Beginning of year	21,095	21,095	21,095	-
<b>Fund Balance</b> - End of year	<u>\$ 21,960</u>	<u>\$ 21,960</u>	<u>\$ 42,714</u>	<u>\$ 20,754</u>

# City of Watervliet, Michigan

## Note to Required Supplemental Information June 30, 2006

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except for the Tri-City Skate Park Fund, which was budgeted on a project basis, covering multiple years. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
Assessor	\$ 7,730	\$ 18,752
Clerk's office	61,037	70,562
Other	17,620	25,813
Police department	262,289	287,079

To the Finance Committee and City Commission  
City of Watervliet, Michigan

In planning and performing our audit of the financial statements of the City of Watervliet, Michigan for the year ended June 30, 2006, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

### **Segregation of Duties** (Repeated from Prior Year)

The internal controls of the City could be enhanced if the duties of the employees in the Clerk's office were more clearly defined. In the area of cash receipts, one person currently has the responsibility for opening the mail, recording receipts, depositing those receipts, and reconciling the bank statement. Although the City has limited personnel, we recommend segregating these functions as much as possible. For example, a second person could be involved in recording the receipts or preparing the deposit. Additionally, the City Manager could review the monthly bank reconciliation report, adding a layer of review independent of the transaction process.

The cash disbursements process should be separated in a similar manner. One person should verify receipt of goods and services and generate the payables report, and a second person should write the disbursement checks. The person writing the checks should not have access to data entry or the bank reconciliation function.

The payroll process also operates in an environment with limited controls. The person issuing the paychecks currently has the ability to add new employees, change pay rates entered into the computer, and prepare the checks. With all of these access capabilities, it is important that a payroll report be generated for approval by a second person before the checks are issued. All payroll records should be reviewed periodically by someone independent of the transactions for accuracy of employees and pay rates.

To the Finance Committee and City Commission  
City of Watervliet, Michigan

### **Check Signing** (Repeated from Prior Year)

During our audit, we noted one of the City's written policies was not being strictly adhered to. We recommend the City review this policy to determine whether it should be modified to follow current practices or be more strictly enforced. The City's Administration Code does not list the City Manager as an eligible check signer. However, we noted that the City Manager regularly signs cash disbursement and payroll checks.

If the policy will not be changed, we recommend the new City Manager not be given check signing ability.

### **Journal Entries**

We commend the City's accounting staff for significantly reducing the amount of journal entries posted to the books during this year. However, we recommend the following internal control procedures be considered to strengthen internal controls in this area:

- A hard copy of all manual journal entries and the related support for those entries be maintained in one location
- A second person should review all manual journal entries posted to fund balance on a regular basis.

### **Security** (Repeated from Prior Year)

With the City's heavy reliance on its computerized network and accounting system, it is imperative that the City develop a disaster recovery plan. Currently the two main computers used for accounting have a backup feature in which the hard drives are backed up to one of the computers. However, the City is at risk of losing all accounting data in the event that both of these computers are incapacitated at the same time. We recommend an external back-up be performed on a regular basis. All information should be backed up to a secure website or an external disk that can be protected from fire, theft, or other damage (i.e., stored off site).

We also noted that blank checks are left in an unlocked vault during the day. We understand that the vault is being locked at night and during lunch hours. However, we recommend that blank checks be kept in a locked, secure location with access restricted to those eligible to prepare checks, at all times of the day.

## State-shared Revenue

The State's fiscal year 2005/2006 provides for both constitutional and statutory revenue sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. As with the past several years, revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at approximately fiscal year 2004/2005 levels.

The governor's proposed 2006/2007 budget did not include any additional funding for local governments. As a result, it is expected that overall revenue-sharing payments to communities for fiscal year 2006/2007 will remain stagnant at the 2004/2005 level.

Even though there is the expectation that revenue sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue sharing may be maintained at current levels, sales tax revenue would support an increase to total state-shared revenue payments. However, for fiscal years 2004/2005, 2005/2006, and 2006/2007, the appropriation in the State's budget for revenue-sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. For those three years, revenue-sharing distributions are planned to be approximately \$1.6 billion less than amounts provided by statutory formulas. There appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

State-shared revenue accounts for approximately 27 percent of the City's total General Fund revenue. The table below details state-shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2001.

State Fiscal Year	Statutory	Constitutional	Total	Increase (Decrease) from 2001
2001	\$ 168,829	\$ 119,596	\$ 288,425	\$ -
2002	\$ 167,316	\$ 120,814	\$ 288,130	\$ (295)
2003	\$ 152,765	\$ 122,859	\$ 275,624	\$ (12,801)
2004	\$ 126,193	\$ 121,525	\$ 247,718	\$ (40,707)
2005	\$ 120,593	\$ 124,425	\$ 245,018	\$ (43,407)
2006	\$ 115,740	\$ 126,496	\$ 242,236	\$ (46,189)

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$116,000 at risk in its General Fund budget based on 2006 funding levels. We will continue to update the City as developments occur. The statutory formula expires in 2007 and requires action by the Legislature.

To the Finance Committee and City Commission  
City of Watervliet, Michigan

### **Electronic Transfers**

There was a bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of “automated clearing house (ACH) transactions.” Beginning immediately, a local unit’s governing body must adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe the goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

While the City does not currently use electronic transfers other than for payroll taxes, we recommend that a resolution be adopted in anticipation of future use and to comply with this public act. We would be happy to provide a sample resolution.

### **Reports**

During the audit, we noted that certain reports (i.e., accounts receivable listing) from the fund balance software were not printed as of year end to support financial statement balances. We recommend these reports be printed at least annually at year end, and possibly monthly, to support the accuracy of the general ledger balances.

### **USDA Loan for Water System**

We would like to remind the City that as construction begins on the water system improvements funded through a USDA loan and when the expenditures exceed \$500,000 (or if all federal program expenditures combined exceed this threshold), you will be subject to the single audit compliance requirements under OMB Circular A-133.

### **Debt Service PPLRS Fund**

Currently, we noted that the Debt Service PPLRS Fund’s only remaining activity is to record interest income. To simplify the recordkeeping and reduce the amount of time the City exerts to maintain multiple funds, we recommend the City close the Debt Service PPLRS Fund and combine it with the Sewer Fund.

To the Finance Committee and City Commission  
City of Watervliet, Michigan

### **Unlawful Expenditures**

Elected officials, as well as management, should become familiar with what might be considered potentially unlawful expenditures. The State of Michigan website has provided a reference for local government officials, employees, and governmental auditors of selected references that address some of the questionable expenditures of local government. Examples of unlawful expenditures are as follows: contributions to nonprofit organizations, office refreshments and picnics, flowers to sick or grieving persons, presents to officials and employees or retirement recognition events, etc. A more inclusive listing can be found at the State's website at: [http://www.michigan.gov/treasury/1,1607,7-121-1751\\_2194-7603--,00html](http://www.michigan.gov/treasury/1,1607,7-121-1751_2194-7603--,00html).

### **Internal Balances**

The nature of the "due to other funds" and "due from other funds" accounts should be short term. If the City does not intend to liquidate these balances, loan agreements should be drafted with established interest rates and payment terms. With the current cash positions in most funds, the City could repay most of these balances.

We would like to thank the City for the trust bestowed upon us in the opportunity to serve as your professional auditing firm. We appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

*Plante & Moran, PLLC*

September 25, 2006